UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

PJM Interconnection, L.L.C.	Docket No. ER07-424-000
PJM Interconnection, L.L.C.	Docket No. ER06-1271-000
PJM Interconnection, L.L.C.	Docket No. ER06-954-000
PJM Transmission Owners	Docket No. ER06-880-000
PJM Interconnection, L.L.C.	Docket Nos. ER06-456-000 ER06-456-001 ER06-456-002

ORDER ON COST ALLOCATION REPORT, ESTABLISHING HEARING PROCEDURES, CONSOLIDATING PROCEEDINGS, AND HOLDING PROCEEDINGS IN ABEYANCE

(Issued April 10, 2007)

1. On January 11, 2007, PJM Interconnection, L.L.C. (PJM) filed (1) a report of the allocations of cost responsibility for certain transmission upgrades approved by the PJM Board of Managers (PJM Board) as part of PJM's Regional Transmission Expansion Plan (RTEP), and (2) revised tariff sheets to identify the upgrades and to state the approved cost allocations as well as to reflect the deletion of, or revision to, certain cost allocations in PJM's Open Access Transmission Tariff (OATT). In this order, we accept for filing PJM's revised tariff sheets, suspend them to become effective April 11, 2007, subject to refund, and set them for hearing. Also, we consolidate this proceeding with the ongoing proceedings in Docket Nos. ER06-456-000, -001, and -002, Docket No. ER06-880-000, Docket No. ER06-954-000, and Docket No. ER06-1271-000, and hold this proceeding in abeyance pending further order of the Commission.

I. **Background**

2. PJM files reports allocating cost responsibility for certain transmission upgrades that have been approved by the PJM Board (Required Transmission Enhancements) as part of PJM's RTEP in accordance with Schedule 12 of the PJM OATT (Schedule 12) and section 1.6 of Schedule 6 of the PJM Operating Agreement (Schedule 6), and pursuant to section 205 of the Federal Power Act (FPA).[1] The purpose of the RTEP is to provide for the construction of expansions and upgrades to PJM's transmission system in order to comply with reliability criteria, and to maintain and enhance the efficiency of PJM's wholesale electricity markets.

3. PJM is required by Schedule 6 to allocate responsibility for each of the upgrades based on the extent to which load in each zone contributes to the violation of reliability criteria that the upgrade is designed to remedy. PJM determines distribution factors (DFAX) that identify the power flows that cause the reliability violations that give rise to the need for transmission upgrades. In this manner, PJM determines the "cost causers" and "beneficiaries" of the resulting continued reliable transmission system and assigns costs accordingly. PJM allocates the costs of necessary system improvements to the load that causes the need for the upgrade, regardless of the physical location of that load relative to the affected facility.

4. PJM has previously filed recommended cost allocations in Docket No. ER06-456-000, *et al.*, Docket No. ER06-954-000, and Docket No. ER06-1271-000.[2] The

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[1] 16 U.S.C. § 824d (2000).

[2] In its May 26, 2006 order, the Commission set for hearing and settlement judge proceedings the RTEP filing in Docket No. ER06-456-000, *et al. See PJM Interconnection, L.L.C.*, 115 FERC ¶ 61,261 (2006) (May 26 Order). In its August 3, 2006 order, the Commission set for hearing and settlement judge procedures the RTEP filing in Docket No. ER06-954-000 and consolidated Docket No. ER06-954-000 with Docket No. ER06-456-000, *et al. See PJM Interconnection, L.L.C.*, 116 FERC ¶ 61,118 (2006) (August 3 Order). In its October 18, 2006 order, the Commission set for hearing and settlement judge procedures the RTEP filing in Docket No. ER06-1271-000 and consolidated Docket No. ER06-1271-000 with Docket No. ER06-456-000, *et al.*. *See PJM Interconnection, L.L.C.*, 117 FERC ¶ 61,058 (2006) (October 18 Order) (collectively, RTEP orders).

We also note that the PJM Transmission Owners filed modifications to Schedule 12 in Docket No. ER06-880-000. On June 16, 2006, the Commission issued an order consolidating Docket No. ER06-880-000 with Docket No. ER06-456-000, *et al. See PJM Transmission Owners*, 115 FERC ¶ 61,345 (2006).

Commission's previous RTEP orders set for hearing and settlement judge procedures the allocation of cost responsibility for specific projects and PJM's proposed cost allocations to merchant transmission projects. However, the Commission maintained in all the RTEP orders that "we are not setting for hearing general objections to PJM's proposed allocation or challenges to PJM's allocation methodology specified in its OATT or Operating Agreement."[3]

5. The hearing is currently being held in abeyance as directed by the Commission in its February 27, 2007 order granting an interlocutory appeal.[4] The Commission recognized that similar issues regarding the proper methodology for allocating the costs of existing and new transmission facilities are before the Commission on exceptions from an Initial Decision in Docket No. EL05-121-000.[5] Therefore, the Commission ordered the hearing held in abeyance pending the Commission's decision in Docket No. EL05-121-000.

II. PJM's Filing

6. PJM's January 11, 2007 filing is PJM's fourth filing of cost allocations for RTEP (January 11 filing). Specifically, this RTEP filing addresses approximately $47 million of new system upgrades. PJM includes revised tariff sheets to identify the upgrades and to state the approved cost allocations in Schedule 12-Appendix. As in the previous RTEP filings, PJM states that the January 11 filing includes the costs of certain planned upgrades allocated to merchant transmission projects, *i.e.*, Neptune Regional Transmission System, LLC (Neptune) and East Coast Power, L.L.C. (ECP).

7. PJM's RTEP report states that "[w]ith the exception of seven new spare single phase 500/230 kV transformers, all of the upgrades included in this submittal are reliability-based."[6] PJM notes that its stakeholders are currently working to develop new cost allocation procedures that will provide guidance regarding the most appropriate allocation of future costs for spare equipment. However, at this time, the cost allocation for spare equipment is based on the existing allocation of costs for similar facilities

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[3] May 26 Order at P 56; August 3 Order at P 38; October 18 Order at P 49.

[4] *PJM Interconnection, L.L.C.,* 118 FERC ¶ 61,154 (2007).

[5] *PJM Interconnection, L.L.C.*, 116 FERC ¶ 63,007 (2006).

[6] *See* PJM's "Report on Allocations of Cost Responsibility for Certain Transmission Upgrades Included in PJM's Regional Transmission Explansion Plan, December 2006" at 2.

already present at the location where the spare will be deployed. Additionally, PJM states that the January 11 filing includes cost allocations for the replacement or upgrade of circuit breakers needed as a result of adding new transmission facilities. PJM explains that if a circuit breaker must be replaced or upgraded as a result of the addition of a transmission project, the recovery of the associated costs are assigned to the same entities that are assigned the costs of the transmission project.

8. Also in this filing, PJM reflects the deletion of, or revision to, certain cost allocations that were approved in the previous RTEP orders, but are no longer required. Projects that are being deleted from Schedule 12-Appendix include b0315, b0131, and b0213. In addition, the cost allocation percentages for Project b0228 are being revised because PJM determined that this upgrade is not needed until June 2010, instead of 2009 as originally anticipated.

9. PJM requests that the revised tariff sheets submitted in this docket become effective on April 11, 2007.

III. Notice and Comments

10. Notice of PJM's January 11, 2007 filing was published in the *Federal Register*, 72 Fed. Reg. 2,876 (2007), with interventions and protests due on or before February 12, 2007.

11. Timely interventions were filed by Allegheny Power and Allegheny Energy Supply Company, LLC; American Municipal Power – Ohio, Inc.; Baltimore Gas and Electric Company; Blue Ridge Power Agency; Dominion Resources Services, Inc.; Duquesne Light Company; Illinois Commerce Commission; Illinois Municipal Electric Agency; Mittal Steel USA Inc.; New Jersey Board of Public Utilities; North Carolina Electric Membership Corporation; NRG Power Marketing Inc., Conemaugh Power LLC, Indian River Power LLC, Keystone Power LLC, NRG Energy Center Dover LLC, NRG Rockford LLC, NRG Rockford II LLC, and Vienna Power LLC; Public Power Association of New Jersey; and Public Service Commission of Maryland.

12. A timely motion to intervene, comments and motion for clarification was filed by Exelon Corporation (Exelon). Timely motions to intervene and protests were filed by the FirstEnergy Companies,[7] the PHI Companies,[8] PPL Electric Utilities Corporation (PPL

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[7] The FirstEnergy Companies include Jersey Central Power & Light Company, Metropolitan Edison Company, and Pennsylvania Electric Company.

[8] The PHI Companies include Pepco Holdings, Inc., Atlantic City Electric Company, Delmarva Power & Light Company, and Potomac Electric Power Company.

Electric), and the PSEG Companies[9] (collectively, the Indicated Companies); Long Island Light Company d/b/a LIPA (LIPA);[10] Neptune; and Old Dominion Electric Cooperative (Old Dominion).

13. PJM filed an answer to the motion to hold the proceeding in abeyance and to the protests.

A. Motion to Hold Proceeding in Abeyance

14. LIPA recommends the Commission not consolidate the January 11 filing with the previous three RTEP filings because the advanced stage of discovery and testimony in the ongoing proceedings would make doing so inefficient. LIPA requests that any proceeding relating to the January 11 filing be held in abeyance subject to the outcome of the pending hearing on the consolidated RTEP allocation proposals.

B. Methodology Issues

15. Exelon asks the Commission to again make clear the fact that the underlying methodology of the DFAX used by PJM is not at issue in the instant filing. On the other hand, Old Dominion asks the Commission to make an assessment concerning whether or not the methodology of PJM's RTEP cost allocation is just and reasonable. Old Dominion goes on to state that PJM's cost allocation methodology does not produce just and reasonable results because it reflects an "overly cramped and rudimentary approach" to identifying the customers contributing to the *need* for a given transmission enhancement or expansion while ignoring the requirement that there be an assessment of the customers that *benefit* from the upgrade. Along those same lines, Old Dominion asserts that PJM wrongly assumes that those who need the upgrade are the only ones who will benefit from the upgrade. In addition, Old Dominion argues that PJM fails to take into account the fact that flows and beneficiaries can significantly change over the 40-year life of a transmission project.

16. Old Dominion opposes what they call PJM's "snapshot" methodology, which they suggest is analogous to a "straw that broke the camel's back" approach, rather than taking into consideration all system demands that contributed to the need for the upgrade. They also note their view that the DFAX methodology tends to skew upgrade allocations to the

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[9] The PSEG Companies include Public Service Electric and Gas Company, PSEG Energy Resources & Trade LLC, and PSEG Power LLC.

[10] With its protest, LIPA also filed a motion to hold the proceeding in abeyance.

east, as the prevailing direction of flows in PJM during the peak hour used in the DFAX approach is from west to east.

17. Old Dominion also contends that PJM has failed to adequately address the economic benefits of a project (as opposed to just the reliability benefits). While Old Dominion agrees with PJM that the distinction between economic and reliability benefits can be somewhat artificial, they are uncomfortable with the complete failure to account for economic benefits in PJM's cost allocations and request that this issue be set for hearing. Old Dominion is also uncomfortable with PJM's treatment of cost allocation for high-voltage facilities that provide regional benefits. It goes on to say that the Commission should permit parties to pursue at a hearing the issue of whether and to what extent transmission system upgrades that provide regional benefits should be allocated regionally.

18. PJM has also not justified its cost allocation for the replacement/upgrade of circuit breakers, Old Dominion claims. PJM has allocated the cost responsibility for these circuit breaker replacements/upgrades to the entities assigned the costs for the transmission upgrade. Old Dominion maintains this cost allocation is arbitrary, at best. It proposes instead allocating the costs on a regional basis since replaced/upgraded circuit breakers will improve system reliability, a system-wide benefit.

19. Old Dominion claims that PJM has not justified its cost allocation for spare equipment, either. While not challenging the need for such spare parts, Old Dominion again claims that PJM has failed to fully account for both the customers that contribute to the need for, and those who benefit from, the transmission enhancement, when allocating costs. Old Dominion asserts that the benefits from the spare equipment will not be restricted to the zones currently assigned cost responsibility by PJM, and as such, this allocation is not just and reasonable and is inconsistent with PJM's Operating Agreement.[11]

20. Old Dominion continues to dispute that there has been an open, transparent and collaborative stakeholder process to address cost allocation methods for reliability upgrades. It asks the Commission to establish an evidentiary hearing in which PJM's

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[11] Although the Indicated Companies do not protest PJM's allocation of costs for spare equipment in this proceeding, they note that they are not waiving their right to protest the allocation of spare equipment in future proceedings. Additionally, the Indicated Companies note that by agreeing to the allocation of spare equipment in the January 11 filing, they are not waiving their right to change those allocation procedures going forward.

cost allocation proposal can be evaluated and to afford the participants the opportunity to present alternatives.

21. Finally, Old Dominion objects to the following specific upgrades: b0130, b0215, b0272.2, b0290, b0332, b0333, b0334, b0335, b0336, b0337, b0338, b0339, b0340, b0341, b0342, b0348, b0367.1, b0367.2, b0369, b0370, b0375, b0376, b0383, b0384, b0385, b0386, b0387, b0389, b0391, b0403, b0412, and b0429.

22. The Indicated Companies specifically protest PJM's proposed allocation of costs for Project b0403. The Indicated Companies contend that the cost allocation proposed by PJM for Project b0403: fails to account for all violations that contribute to the need for an RTEP upgrade; unfairly uses the netting of positive and negative flows; and fails to acknowledge electrically cohesive areas in the Dominion transmission zone that should impact the allocation of costs.

23. The Indicated Companies complain that PJM allocates costs based exclusively on the single highest violation that contributed to the need for the upgrade. They claim that some upgrades will resolve several different violations. In such circumstances, the Indicated Companies argue, it is unreasonable to allocate costs only to the single highest violation. For example, Project b0403 may solve more than one reliability violation according to the Indicated Companies, but PJM has allocated the costs for this project based solely on one causal event—a generator deliverability violation. Doing so, they say, ignores the large number of beneficiaries that contributed to the need for or will benefit from the reliability upgrade, creating a free-rider problem. Therefore, the Indicated Companies state that if multiple violations caused the need for Project b0403, then allocating costs based on the highest single violation is inconsistent with Schedules 6 and 12 and results in unjust and unreasonable rates.

24. The netting of positive and negative contributions of intra-zonal flows when allocating costs for Project b0403 results in unjust and unreasonable rates, the Indicated Companies claim. They maintain that netting the positive impacts of certain loads in a zone against the negative impacts of other loads in a zone can have substantial and inequitable effects since current PJM transmission zones are not geographically or electrically consistent, yet each zone is treated as a single entity by PJM. Smaller zones have inherently less diverse flows to net positive and negative impacts on constraint and are thus more likely to be allocated costs for upgrades, the Indicated Companies state. The Indicated Companies submit that PJM needs to identify the loads that contribute to the need for the project and allocate the cost of the project to all zones that contribute to the violation(s), as is consistent with Commission precedent.

25. The Indicated Companies also suggest that PJM should examine their system through electrically cohesive areas within a larger zone. Doing so, they say, may reveal violations that may otherwise go unnoticed using the purely zonal method. The Indicated Companies believe that electrically cohesive areas may exist in the Dominion transmission zone, and this could have a significant impact on how costs should be allocated.

C. Merchant Transmission Issues

26. As with the previous three RTEP filings, LIPA continues to be concerned that PJM is attempting to impose additional upgrade costs on the Neptune merchant transmission facility that are not related to its actual impacts on the system. Further, LIPA contends that PJM's proposed cost allocation to merchant transmission facilities violates Schedule 6, in which the allocation of reliability upgrades is limited to market participants in one or more "zones." LIPA states that the Neptune line is not a zone under the PJM tariff.

27. LIPA also complains of disparate and unfavorable treatment given to exports over merchant lines as compared to non-merchant lines. For example, in the January 11 filing, PJM did not model a generator supplying external installed capacity (ICAP) to New York over non-merchant AC interties as load for purposes of cost allocation. They did, however, allocate costs to essentially the same transaction over the Neptune line (a merchant line). Further, PJM says they have treated the Neptune line "like all other system load" and have thus allocated RTEP costs to the merchant transmission line. Despite this identical treatment in terms of cost allocation, however, LIPA states that PJM's tariff remains unclear as to whether other rights and services are available to Neptune that are available to the rest of network load. If PJM is going to treat merchant transmission facilities as the equivalent of network load in PJM, then PJM must make the full set of PJM transmission services practically available to users of the merchant transmission facilities, without artificial barriers, LIPA says.

28. LIPA states that PJM has insufficient information to correctly allocate costs on specific projects—specifically Projects b0411 and b0429, to which Neptune has been allocated partial cost responsibility. Consistent with its orders regarding PJM's first three RTEP allocation proposals, LIPA asks the Commission to set these projects for hearing and settlement with respect to the nature and basis of PJM's proposed allocation of these projects costs to the Neptune Line.

29. In addition, LIPA states that the Commission should conclude that the Neptune Line cannot be allocated RTEP upgrade costs for future changed conditions in load growth for 2010 and beyond because Neptune, which came online in 2007, has a fixed capacity under the interconnection agreement and thus cannot experience load growth.

Because the withdrawal rights for the Neptune Line have a fixed, static value of 685 MW, the Neptune Line "load" cannot be the cause of a load growth reliability violation, nor could the Neptune Line benefit from elimination of any such violation, LIPA says.

30. Neptune supports LIPA's protest and adds one more issue to its own protest. Neptune takes issue with PJM's labeling of Neptune as the sole "responsible customer" under Schedule 12 since such a term, as stated in PJM's tariff, is supposed to refer to transmission service customers. Neptune is in fact an interconnection customer, not a transmission service customer, and should therefore not be charged with the responsibilities that come along with being the sole "responsible customer." Neptune states that PJM's proposed identification of Neptune as the sole "responsible customer" under Schedule 12 is inconsistent with its treatment of all other entities under Schedule 12 and is therefore unduly discriminatory under Section 205 of the Federal Power Act.

D. PJM's Answer

31. In its answer, PJM states that the parties raise virtually identical issues as they brought up in protests to the previous RTEP filings. In response to LIPA's motion to hold the hearing in abeyance, PJM requests that the motion be denied. Instead, PJM suggests that this proceeding be consolidated with the proceeding in Docket No. ER06-456-000, *et al.* PJM contends that holding the proceeding in the January 11 filing in abeyance would create uncertainty in the planning process that could adversely impact reliability.

IV. Discussion

A. Procedural Matters

32. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2006), the notices of intervention and the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

33. Rule 213(a)(2) of the Commission's Rules of practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2006), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept PJM's answer because it has provided information that assisted us in our decision-making process.

B. Analysis

34. The Commission accepts and suspends the proposed allocation of responsibility for the Required Transmission Enhancements, establishes hearing procedures, and holds

this proceeding in abeyance pending further order of the Commission, as discussed below.

35. Because the issues presented in this filing are similar to the issues pending in Docket No. ER06-456-000, *et al.*, we will consolidate this proceeding with the ongoing proceeding in Docket No. ER06-456-000, *et al.*, as discussed below. Although LIPA suggests that consolidating this proceeding would be inefficient, we disagree. The issues presented in these filings and the resolution of these issues are similar. Further, because the Commission's order granting the interlocutory appeal holds the hearing in abeyance, there will be ample time and opportunity for the parties to address issues specific to the January 11 filing at such time as the abeyance may be lifted.

36. We take this opportunity to clarify which projects are considered protested. LIPA and Neptune take issue with Projects b0411 and b0429. The Indicated Companies take issue with Project b0403. Old Dominion objects to the cost allocation percentages for Projects b0383, b0384, b0385, b0386, b0387, b0389, b0391, b0403, b0412, and b0429.[12]

C. **Hearing Procedures**

37. The Commission's preliminary analysis of PJM's filing indicates that it has not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful. Accordingly, we will conditionally accept and suspend the revised tariff sheets and allocation of cost responsibility for the specific projects listed herein where parties have raised specific issues of fact related to their respective project allocations, make them effective April 11, 2007, subject to refund, and set them for hearing as ordered below. We are not setting for hearing general objections to PJM's proposed allocation or challenges to PJM's allocation methodology specified in its OATT and Operating Agreement.

38. Given the common issues of law and fact we will consolidate this proceeding with the proceeding ongoing in Docket Nos. ER06-456-000, -001, and -002, Docket No. ER06-880-000, Docket No. ER06-954-000, and Docket No. ER06-1271-000.

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[12] As discussed in above, in its protest, Old Dominion objected to additional projects. However, these other projects were not included in the January 11 Filing; instead, they were part of PJM's filings in Docket No. ER06-456-000, *et al.*, ER06-954-000, and ER06-1271-000. Any objections to these projects should have been raised in response to the previous RTEP filings.

The Commission orders:

(A) PJM's revised tariff sheets are hereby accepted for filing and suspended to become effective April 11, 2007, subject to refund.

(B) Pursuant to the authority contained in and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by section 402(a) of the Department of Energy Organization Act and the Federal Power Act, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act (18 C.F.R. Chapter I), a public hearing shall be held concerning the justness and reasonableness of PJM's filing. However, the hearing will be held in abeyance pending further order of the Commission in accordance with the Commission's February 27, 2007 Order granting an interlocutory appeal.

(C) Docket No. ER07-424-000 is hereby consolidated with Docket Nos. ER06-456-000, -001, and -002, Docket No. ER06-880-000, Docket No. ER06-954-000, and Docket No. ER06-1271-000.

(D) The presiding administrative law judge or settlement judge, as appropriate, designated to preside in the proceeding ongoing in Docket Nos. ER06-456-000, -001, and -002, Docket No. ER06-880-000, Docket No. ER06-954-000, and Docket No. ER06-1271-000 shall determine the procedures best suited to accommodate consolidation.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.